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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

Date: MAY 9 1951

NOTE: 1. This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence.

2. Comments represent the preliminary views of the Office of Current Intelligence.

3. Marginal letter indications are defined as follows:

"A" - items indicating Soviet-Communist intentions or capabilities

"B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities

"C" - other information indicating trends and potential developments

DIA AND DOS REVIEW COMPLETED

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SECTION 1 (SOVIET)

"B" USSR. Marshal Konev in Prague for Celebration. As head of a Soviet delegation, Soviet Marshal Ivan S. Konev delivered an address in Prague on 5 May on the occasion of the celebration of the Sixth Anniversary of that city's liberation. COMMENT: Konev has been the subject of numerous reports placing him in various Satellite commands. [redacted]

25X1 25X1 His recent appearance in Prague, however, cannot be construed as confirmation. There is no evidence that he is still not Commander in Chief of the Ground Forces of the USSR. He also attended this year's May Day celebration in Moscow, although for the first time since 1949.

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"B" Abbreviated Results First Quarter 1951 Plan Published. These very abbreviated results published in the Soviet Press, 8 May, claimed an 18% rise in gross value for the total output over last year's same period, and a fulfilling of the plan by 100.2%. Ministries not completing their quotas included ferrous (99%) and non-ferrous (98%), oil (99%), heavy machine building (99.7%), building material (99%), timber (89%), meat and dairy (98%), cotton cultivation (97%) and railroads (95%). No commodity data was given, and the usual sections on capital construction, national income, labor, transportation, and welfare of people were completely omitted. [redacted]

25X1 "A" EASTERN EUROPE. CZECHOSLOVAKIA. Soviet Liberation of Czechoslovakia Celebrated. The sixth anniversary of the "liberation" of Czechoslovakia by the Soviet Red Army was celebrated on 6 May in Praha with a military parade, an air show, and a series of speeches by Soviet Marshal Konev and Czechoslovak Party and Government leaders. The oratory can be summarized into four significantly emphasized subjects: (a) the firm alliance between Czechoslovakia and the USSR, a country which has "always honored its international obligations"; (b) the development of the Czechoslovak Army in the image of the Soviet Army; (c) the military readiness and political preparedness of the Czechoslovak Army; and (d) warnings to the armed forces to maintain vigilance against the enemy, i.e., the Anglo-American imperialists. The military parade, as reported by the US Embassy, included Czechoslovak soldiers in Soviet-style uniforms and basic equipment, Security Corps and People's Militia troops, as well as Soviet-type artillery and tanks. The US Military Attaché concludes that the war potential of the Czechoslovak Army has improved in the last year; but the lack of modern equipment and esprit de corps definitely places the Czechoslovak Army in a secondary category. The US Air Attaché describes the Czechoslovak Air Force (CAF) demonstration as "disgraceful." The fly-pass was led by US-made C-47's and did not include the Soviet-type jet aircraft which had been witnessed rehearsing for the occasion. The Air Attaché attributes the poor air showing to lack of pilot skill and staff.

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inexperience. He concludes that the air show was additional evidence that the CAF is incapable of surviving more than one or two days in a modern war. an opinion which was shared by all of the other Western Air Attaches.

"B"

HUNGARY. Expanded Army Estimated at 100,000. On the basis of a progressive build up in the Hungarian armed forces since last fall, the Military Attaché Budapest now estimates that the Army contains 100,000 men. The MA estimate had been 55,000 since November 1950. These figures exclude naval and security forces, but include frontier guards. Personnel undergoing short term or refresher training are not included. 25X1

COMMENT: The Hungarian Army has been officially estimated at 65,000. In view of the registration of older personnel and the call-ups without a corresponding release since last fall, it has been estimated that the army would reach 90-100,000 by this spring.

"C"

Radio Budapest Exploits Vogeler Statements. In its first mention of Vogeler since the brief official statement of the facts connected with his release, the Budapest radio has broadcast a commentary exploiting some statements made by Vogeler after his release. Vogeler's admission that there was some truth in his confession has been coupled with the allegation that he did not deny a single charge brought against him by the Hungarian court to imply that he admitted to having been engaged in gathering military and economic intelligence and in carrying out economic sabotage. In connection with Vogeler's alleged complaint that he was forced to read Dickens, the Hungarian radio pointed out that if he had read some of Dickens' remarks on Americans he would have found them most enlightening and instructive. In answer to Vogeler's statement that "what happened to me could happen to anyone", Budapest Radio said that if Vogeler were just anyone "he would far more likely be fighting it out in Korea than enjoying the hospitality of a Hungarian prison". 25X1

"A"

POLAND. Government Desires American Scantic Line to Continue Operations. According to a US Embassy Warsaw official who has consulted with an officer of the American Scantic Line branch in Gdynia, Polish officials have expressed a desire that the line continue its operations. Polish officials representing the Ministries of Shipping, Finance, and Foreign Trade have assured the American Scantic representative that they had no intention of liquidating the line in Poland. Developments indicative of the Polish Government's anxiety are: (1) official concern over the departure from the country of the company's two American officials in Gdynia, (2) an official inquiry concerning the cancellation of the scheduled arrival of the American Scantic vessel, Mormacpine, and (3) the apparent cancellation of the prohibitive tax levied against the company and the refund of the portion already paid. The fact that considerable freight and mail is now on the pier at Gdynia awaiting shipment on the Mormacpine may partially explain the government's immediate

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concern.

COMMENT: These friendly overtures by the Polish Government could conceivably be a device to lure American Scantic vessels back to Polish harbors, where they could be seized as payment for the claimed damages sustained by the cessation of the Polish vessel Batory's service to New York. It is more likely, however, that the Polish Government requires for the immediate future the facilities for shipping that have been provided heretofore by American Scantic.

"C"

YUGOSLAVIA. Protest Note to Moscow. The Yugoslav Government on 4 May addressed a note to the USSR protesting the rude treatment of a secretary in the Yugoslav Embassy in Moscow. The Yugoslav press in announcing the note explains that this incident is but a reflection of the Soviet bureaucratic system which at home tramples upon the rights of its citizens and in international life violates the basic principles of civilized relations.

COMMENT: This note represents an extension to the USSR of the recent Yugoslav-Satellite charges and counter-charges of maltreatment of diplomatic personnel. The Yugoslav Government recently closed the Soviet consulates at Zagreb and Split reducing Soviet representation in Yugoslavia to the Embassy in Belgrade.

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CURRENT COMMUNISM. World Peace Council Meeting Issues Innocuous Resolution. The executive committee of the World Peace Council closed its three day session in Copenhagen with a resolution urging support of the Peace

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Partisans' signature drive for a five power peace pact.

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COMMENT: Aside from this resolution and the speeches made at a large public meeting on 6 May sponsored by Danish Peace Partisans, no propaganda or information emanated from this session. World Communist media gave the meeting little or no publicity; and Radio Moscow offered only very limited comment. Thus the reason for the meeting was probably largely administrative.

"C"

Communist Women's Group to Investigate "US War Crimes in Korea." A TASS despatch announces the arrival in Moscow on 8 May of a commission of the Women's International Democratic Federation (WIDF) on its way to Korea to "establish the facts of crimes perpetrated by the American interventionists with respect to the Korean civilian population." TASS said that the commission was travelling at the invitation of "Korean women," and included representatives from Algeria, Austria, Belgium, Canada, Denmark, France, Holland, Tunisia, and the USSR.

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COMMENT: The WIDF is one of the major Communist international organizations. Its headquarters are in East Berlin. The "findings" of the commission will be used as raw material for pro-Communist "peace" propaganda.

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SECTION 2 (EASTERN)

"A" IRAN. Tudeh Sends Open Letter to Prime Minister Mossadeq. The outlawed pro-Soviet Tudeh Party has sent an open letter to the Prime Minister, according to the US press, demanding the following: (1) Legalization of the party, (2) Expulsion of the US Military Mission to Iran, (3) Rejection of foreign arms aid, (4) Release of political prisoners, (5) Recognition of Communist China, (6) End to martial law in the oil fields, and (7) nationalization of the Bahrein Island oil fields.

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COMMENT: The Tudeh Party was banned in February 1949 following an assassination attempt on the Shah in which it was implicated. Since that time it has continued its activities clandestinely. The Tudeh letter puts Mossadeq in a difficult position, for he is an advocate of the free expression of political beliefs and many of the points in the letter are not in conflict with his own stand. He is rumored to be considering legalizing the Tudeh on the grounds that it might be easier to control if its activities were brought out into the open. Nevertheless the Tudeh has attacked him, and now that he has become Prime Minister he may be inclined to consider the Tudeh too dangerous to be permitted to express itself openly and freely.

"B" IRAN. US Ambassador's Estimate of Mossadeq's Strategy. The US Ambassador in Tehran on 7 May made the following appraisal of Prime Minister Mossadeq's strategy and program: (1) Mossadeq will concentrate on a solution of the oil issue and will not push such projects as electoral and budget reforms if opposition to them develops in Parliament (Majlis). He will avoid friction with the Majlis, (2) Selection of members of the proposed joint Oil Commission will probably occur promptly and will be controlled largely by Mossadeq, (3) Once the Commission is formed, Mossadeq will probably move cautiously, particularly since he seems to have as yet no clear idea as to how he will proceed, (4) Mossadeq's policy as outlined may succeed for some three months, or until the Oil Commission submits its settlement proposals to the Majlis, at which time Mossadeq will have to assume responsibility. The US Ambassador concluded that Mossadeq's precarious health, or popular, possibly Tudeh-stimulated, impatience over the delays might hasten a showdown for Mossadeq.

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COMMENT: While Mossadeq stands to retain Majlis support on the oil issue as long as popular feeling on the problem continues at its present high level, it is difficult to see how he can avoid friction with the Majlis. Mossadeq's National Front has wide popular appeal in many of its issues, but it has few representatives in the Majlis and the old line non-Party politicians in Mossadeq's cabinet are not likely to support issues opposed to their

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own interests. Unless Mossadeq can obtain popular support for other measures equal to that which he has on oil nationalization, it is doubtful that he can remain in power for long. At the moment, it seems unlikely that he will do so.

X1 "B" SYRIA-ISRAEL. Border Situation Still Serious. US Ambassador Davis in Tel Aviv reports that despite the cessation of hostilities (as of 8 May) the border situation between Israel and Syria is still "far from encouraging". Davis states that Foreign Minister Sharett, who is Acting Prime Minister while Ben-Gurion is in the US, is facing increasing difficulties within Israel because: (1) popular support for Sharett in cooperating with the UN Truce Supervision Organization (TSO) has been weakened as result of public disappointment over foreign reaction to the border incidents, and (2) while Sharett apparently wishes to avoid hostilities, Army Chief of Staff Yadin has bluntly indicated his lack of confidence in the UN Mixed Armistice Commission (MAC). Because the Israeli military distrust the MAC, they apparently feel that the situation can deteriorate to a point where it may be necessary to "throw discretion to the winds" and use the Israeli Army to secure the border. Meanwhile US Minister Cannon in Damascus reports that the tense atmosphere with in Syria and the popular bitterness toward the border situation are causing difficulties for the Syrian government in its consideration of a settlement of the dispute. Cannon warns of the danger of annexation of the demilitarized area by Israel, since colonization of the small fertile region would serve to release the pressure on the Israeli immigrant staging centers. 25X1

25X1 COMMENT: The seriousness of the Syrian-Israeli border dispute is further emphasized by reports of additional fighting in the frontier region despite a UN Security Council cease-fire order. There continues to be a danger that the Israeli Army - hostile toward the MAC, Syria, and the local Arabs in the demilitarized area - may suddenly take matters into its own hands and occupy part or all of the demilitarized zones, presenting the UN with a "fait accompli" which would be difficult to change.

"B" INDIA. Government Announces Elections to Take Place as Scheduled. On 5 May the Indian press headlined a rumor that general elections in India were to be postponed from November - December 1951 to February - March 1952. This was denied a day later by Indian Law Minister Ambedkar, who announced to Parliament that only the State of Madras had suggested postponement and that the Government of India intended to complete the 25X1 elections by December of this year. 25X1

COMMENT: The Congress-Party-dominated GOI

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apparently does not dare postpone the elections - the first since Indian independence - though it has several good reasons for possibly wishing to do so [redacted]

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Opposition groups have already issued election manifestos and are actively campaigning. An attempt by the GOI to postpone the elections would raise a tremendous outcry from these groups who would seize upon it as public admission of Congress' inability to win the elections.

"C" INDIA. Reported Indian Stand on Issue of Japanese Peace Treaty. According to Reuters, informed Indian sources said that India was sure to support the Soviet demand for Communist China's participation in the drawing up of a Japanese Peace Treaty. [redacted]

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COMMENT: US Embassy New Delhi reported a 23 April TIMES OF INDIA article stating that India would shortly communicate to the US-UK its view that while favoring an early peace treaty, India feels a treaty could be "enduring" only if Communist China and the USSR are invited to participate in the drafting. This reported Indian stand on China's participation is not surprising in view of the GOI's consistent support for recognition of Communist China and its admission to the UN.

"C" INDONESIA. President Sukarno Admits Increased Communism in Indonesia. During a conversation with President Sukarno, US Ambassador Cochran referred to enthusiastic May Day celebrations as evidence of Communist growth in Indonesia. Sukarno quickly admitted the situation and said measures must be taken to oppose Communism. [redacted]

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25X1 COMMENT: The Republic of Indonesia to date has refused to take a firm stand against Communism either as regards domestic problems or external policy. In spite of Sukarno's ready reply, there are no indications of any change in the government's attitude.

"B" Foreign Minister Emphasizes Indonesian "Neutralism". The Indonesian press quotes Subardjo, new Foreign Minister, as saying, when questioned on the world peace movement, that "Indonesia has no need of either a Moscow or Washington peace dove. The only peace dove that is wanted here is the Indonesian one." With regard to the export of vital raw materials to Communist China, Subardjo said Indonesia is planning to sell materials "even to the devil" if the interests of the Indonesian people are served thereby. [redacted]

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25X1 COMMENT: Foreign Minister Subardjo is considerably less capable than his predecessor, Mohammed Rum, and pursued an opportunistic career which has included cooperation with "national Communists." Although Indonesia's external policy of "independence" (i.e., a refusal to take sides in the "cold war") is unlikely to change under Subardjo, he undoubtedly will adopt a far less cooperative attitude toward the Netherlands, the US, and the West than did his predecessor.

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"A" BURMA. Imminent Overthrow of Burmese Government by Pro-Communists Predicted

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in Burma has told officers of the US Embassy in Rangoon that he is convinced the present Burmese Government will be replaced this summer by a pro-Communist government. His opinion, which is not shared by the US Embassy, is apparently derived from the following reports he has received: (1) the Chinese Communists have been sending "25 guns per week" into Burma, (2) 5,000 insurgent troops in northern Burma are being trained by the Chinese Communists, (3) Sino-Burmese Communists have infiltrated the Karen rebels' leadership, (4) the Burmese Communist chief, Than Tun, has been promised supplies and direction from Peiping, and (5) all pro-Communist groups in Burma are receiving aid and direction from the Chinese Communist Embassy in Rangoon.

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COMMENT: The preponderance of reports issuing from Burma in general

25X1 paralleled those [redacted] Although his conclusion that the collapse of the present Burmese Government is imminent is overly pessimistic, the forces arrayed against the Government represent a long-range threat to its existence and, at the very

25X1 least, will seriously increase instability in the country.

"C" Hong Kong Consul General Disapproves "Ransom Payments" for Americans in China. The US Consul General in Hong Kong disapproves of the special license granted by the US Treasury permitting the Bank of America to remit \$53,500 to the American President Lines office in Shanghai; so that the APL agent there may have enough funds to pay off his staff and obtain an exit permit. The Consul General urges that the license be withdrawn, pointing out that

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the payment will establish a precedent which the Communists will apply to other Americans stranded in Shanghai. The great majority of other Americans, says the Consul General, are opposed to such "ransom payments."

COMMENT: The 25X1
State Department, in order to facilitate the exit of American missionaries and business men from China, has approved authorizing the payment of outstanding Communist claims which "have some color of validity and represent more than the bare effort to extort funds." The US Treasury has been asked, however, not to grant licenses for payments in excess of \$100,000 without prior discussion with the State Department.

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"B" KOREA. Communists Make Propaganda Capital of Serious Health Conditions in North Korea. Following a two week build-up in the Soviet Orbit press, an 8 May North Korean radio broadcast addressed to the UN, but broadcast in the Korean language, accuses US and ROK forces of employing biological warfare against the North Korean population. The broadcast, in addition to referring to documents concerning plans for the use of BW, allegedly captured from the ROK, stated that "American Armed Forces had contaminated with smallpox the inhabitants in the areas of North Korea temporarily occupied by them". The North Korean broadcast, claiming that no smallpox had occurred in North Korea for the past 4 years, reported a widespread outbreak "7 to 8 days after liberation of the areas from American Occupation". COMMENT: In 25X1
addition to providing Communist forces in Korea with an excellent propaganda device for internal and international consumption, these claims may be an attempt to conceal the failure of North Korean public health authorities to prevent the outbreak of communicable diseases. While the incidence of smallpox to date in North Korea is unknown, reported the outbreak of smallpox earlier this year.

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"C" KOREA. Rhee Alleged to Have Berated UK. US Embassy London cables that the SUNDAY CHRONICLE of 6 May in a story, datelined Tokyo, quoted President Rhee as telling an Australian official of the UN: "British troops have outstayed their welcome in my country. Tell that to your Government. Australian, Canadian, New Zealand and British troops all represent Governments now sabotaging brave American efforts to liberate and unify my unhappy nation." Another paper on the 7 May carried ROK statements that the story was "Communist-inspired and completely untrue." The denial quoted Rhee as "grateful" for UK help. The UK Foreign Office is reported to be quite upset in view of recent severe casualties. The British Minister in Pusan has been queried and if he confirms the story, the Foreign Office feels it will be obliged to register a protest.

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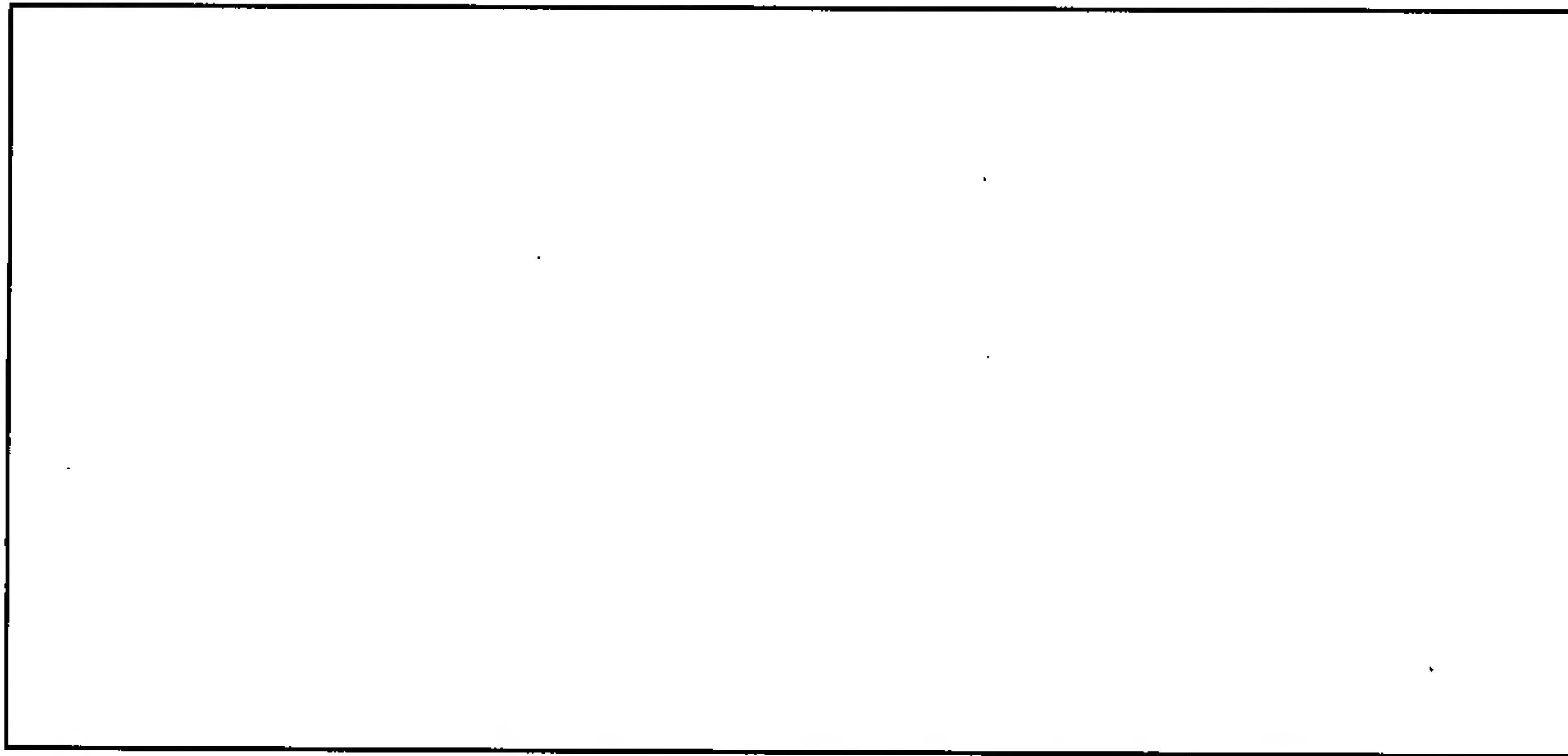
COMMENT: President Rhee, now in his eighties, is reputed to be sufficiently irascible and physically exhausted at the end of a responsibility-burdened day to make such a hot-headed and irresponsible statement. The UK Government was probably not greatly surprised at his action but simply concerned as to the propaganda use that could be made of the story by British Communists who have frequently campaigned for the withdrawal of British troops from Korea.

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SECTION 3 (WESTERN)



"B" FRANCE. French Reuse Offer of Critical Materials to Poland. In discussions with US officials regarding the French-Polish trade negotiations, French officials stated that, although ferro-molybdenum probably would not be included in the final trade agreement, small quantities of ferro-nickel and possibly aluminum may be necessary. The French added that it would be to their interest to continue obtaining coal from Poland, rather than accept the US coal offer, in order to liquidate the \$3.5 million Polish debt owed France. If the current negotiations fail, the French fear that the Poles may not abide by the debt settlement, which would cause "repercussions" in France. The French seem confident of obtaining about 1-1/2 to 2 million tons of Polish coal for 1951 under various agreements, but added that no final trade commitments would be made without prior consultation with the US and other COCOM members.

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25X1 COMMENT: The commitment not to include ferro-molybdenum in the trade agreement probably is the result of US and COCOM pressure, since the French originally believed that a small quantity would have to be programmed to meet Polish demands. The French seem overly optimistic in their hope of obtaining the amount of Polish coal mentioned above, in view of their receipt of only about 3/4 of a million tons in 1950, and just 1/2 million tons less than was expected.

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"B" ITALY. Prospects for New Democratic Socialist Party. The new Socialist Party (PS-SIIS) formed by the merger of the Saragat Socialists (PSLI) and Romita's Unitary Socialists (PSU) has agreed upon a program calling for a fairer distribution of the products of industry and agriculture among all Italians and a struggle against totalitarianism to achieve peace in cooperation with all free nations. The party does not, however, command the whole-hearted participation of some PSLI right wingers and the PSU left wing. The latter, under Silone, is opposed to any attempt by the PS to force provincial PSU federations to follow the new party's policy of linked lists in the forthcoming local elections. It also favors close ties with the workers' movement headed by Communist defectors Magnani and Cucchi—a policy repugnant to the PSLI component. [redacted]

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COMMENT: Democratic Socialism in Italy has taken, at least for the present, a new lease on life as a result of this merger. The PS's representation in Parliament, though modest (33 deputies and 22 senators), probably exceeds that of all rightist groups and could be the determining factor in a close vote between the Communists and De Gasperi's Christian Democrats. Its program should appeal to many elements in the country, particularly workers and reformists who are dissatisfied with the failure of the Christian Democrats to carry out nation-wide socio-economic reforms.

"B" SPAIN. Views of Don Juan on Current Situation. The special assistant to the US Ambassador in Lisbon has reported that in a long conversation on 7 May with the Spanish Pretender, Don Juan

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5X1 [redacted] The Pretender regards the statement of the CIC that it instigated the Barcelona strike as an exaggeration. [redacted] He confirmed

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CIC plans for a general sit-down strike in Madrid on 22 May. He denied knowledge of the manifesto which the CIC secretary had told US Emb Madrid. the Monarchists would issue at the time of the strike calling on Franco to give way to Don Juan. Furthermore, he stated that he would not associate himself with such a manifesto at this time, as its effects might well be disastrous for his cause. He intimated that he was still considering a meeting with Franco.

[redacted] In the Pretender's opinion no solution of Spanish economic problems is possible unless the present policies of the regimes are drastically changed and this, he believes, Franco will not do.

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[redacted] COMMENT: Franco is evidently making a serious effort to induce Don Juan to assume the throne under his auspices as one way of protecting his own position should the international situation continue to deteriorate. Don Juan still appears determined to take such a step only under conditions which would lead to political and economic stability, i.e., on his own terms and in response to an invitation of truly national proportions.

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"C" UNION OF SOUTH AFRICA. Other Non-European Groups Fail to Join Coloreds in Protest Strike. A one-day strike by Coloreds (mixed breeds) in protest against the bill now before the House of Assembly to restrict their voting rights, took place without incident on 7 May. Capetown and Port Elizabeth, where the Colored population is concentrated, were the only areas significantly affected.

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COMMENT: Failure

of other non-European groups except, for a few Indians, to join in the protest, though urged to do so by some of their leaders, indicates that the increasing anti-white feeling in the Union has not yet reached the stage where the various non-European groups are prepared to risk joining in united action against the Government's racial program when their own immediate interests are not directly involved.

"C" BOLIVIA. Government Seeking US Approval of Disqualifying Paz Estenssoro. The Bolivian Government is seeking to learn the US attitude on the results of the 6 May presidential election in which the Movimiento Nacionalista Revolucionario (MNR) candidate polled the greatest number of votes.

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At the same time it is stressing that the MNR, having accepted Communist support and being supported largely by workers, will seek to nationalize industry and even offer tin and other minerals outside the democracies; also there will be unfortunate repercussions in Chile and Peru, "where the Communists will become emboldened, if the MNR is allowed to come to power". Embassy La Paz is convinced that "if we fail to come up with something by which to eliminate the MNR, the Bolivian Government will declare Paz legally ineligible, after which anything might happen". The Embassy also feels that "somehow" the Bolivian Government "is hoping to put the onus on us". The Embassy, however, informed Bolivia that the elections are strictly a domestic affair. Embassy La Paz further reports that MNR candidates disavow anti-US sentiments and, while they have proposed nationalization of the mines, this sentiment is also held by the government candidate.

"C" CHILE. Agreement with US on Copper. An agreement has been reached between the US and Chile on copper. Main points in the agreement are: (1) an increase of 3 cents per pound in the price of Chilean copper sold to the US; (2) a quota of not higher than 20% of the large US-owned companies' copper production will be utilized by Chile for export to countries other than the US and for manufacture; (3) Chile will take measures to assure that copper exported by Chile will not be re-exported, and that no sales will be made to countries which are potential enemies, or for non-essential needs; (4) the US and Chile agree on the importance of maintaining and increasing copper production. The US will assist "to the fullest extent that the emergency permits in the export of essential equipment

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and supplies to carry out" expansion programs, and in the case of smaller mining properties, the US is prepared to consider granting loans and providing engineers.

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25X1 [redacted] COMMENT: Two important points of wide Chilean concern (a higher price for Chilean copper and more effective control of copper production and distribution) have at least in part been satisfied and the difficult position of President Gonzales Videla and his administration will be made more tenable. The specific production quota for Chile's use will increase that country's bargaining leverage in foreign trade. Early publicity in Chile regarding the copper negotiations may, however, have opened the way for Communist criticism of the government and the US for Chilean failure to obtain definite commitments on production increases, provisions for maintenance of purchasing power of copper, and specific assurance of essential imports.

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9 May 1951

SECTION 2 (EASTERN)

"B" CHINA. Communist China Offers Ceylon Rice for Rubber. According to the UK Colonial Office, in early May Communist China approached Ceylon with a proposal to barter 50,000 tons of rice for an equivalent value of rubber. The UK Government has expressed to Ceylon its strong disapproval of such an arrangement

COMMENT:

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Malaya's restriction on rubber exports to China, adopted in early April, has forced the Communists to look to other sources of supply. The Communists have already agreed to export 100,000 tons of rice to India in 1951, half of which has to be exchanged for gunny bags. Although China is not believed to have a surplus of rice over domestic requirements, the Communists could probably export several hundred thousand tons of rice in 1951 without critically reducing stocks available to the regime.

"C" Hong Kong Perturbed by General MacArthur's Charges. Hong Kong government officials, as well as businessmen in the Colony, are disturbed by General MacArthur's statement that Hong Kong exports to the China mainland have been of "substantial assistance" to the Communists in Korea. The Hong Kong government is particularly concerned over General MacArthur's charge that petroleum supplies — which he called "the very essence" of an army's movement — had passed through the Colony to Red China. In conversations with the US Consul General, Hong Kong officials have labeled this charge a "gross and malicious distortion of fact" in view of their campaign to prevent the illicit export of petroleum products to China.

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25X1 COMMENT: A wide range of strategic items continues to flow through Hong Kong to Communist China, although the Colony has added from time to time to its list of forbidden exports. In March, for example, rubber tires, terne plate, aluminum, and brass were a few of the items which Hong Kong added to its list of forbidden exports. An export ban on petroleum products was initiated just after the outbreak of the Korean conflict and although illicit shipments from the Colony are frequently reported, the US Consul General and oil men in Hong Kong are of the opinion that the percentage of China's petroleum needs obtained through Hong Kong is not large.

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"B" IRAN. Shah and Senators Discuss Mossadeq with US Ambassador. On 5 May the Shah reiterated to the US Ambassador that he did not think Prime Minister Mossadeq would last long, and stated that he was pessimistic about the outcome of the oil question. A group of senators later assured the Ambassador that Mossadeq would not move precipitously on the oil matter. All agree that the oil question is a symbol for the expression of intense nationalist drive. Ex-Prime Minister Ala told the Ambassador that Mossadeq had offered him the post of Foreign Minister but that because he was firmly pro-West and could not agree with Mossadeq's "neutrality policy" and the latter's belief that Iran must "appease" the USSR, he turned down the offer. The senators agreed that Mossadeq would not be sympathetic to the US Export-Import Bank Loan. [redacted]

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25X1 COMMENT: These statements reflect the impotence and discouragement which many Iranians, including the Shah, feel in the face of the current surge of emotion on the oil issue. Realizing that Mossadeq is an idealist with little appreciation of the main problem which is Iran's economic plight, many Iranians fear that he will lead Iran into economic chaos with consequent gain for the Communists. Although Mossadeq has told Ambassador Grady that he would like to discuss the Ex-Im bank loan with him, there is considerable doubt, in view of Mossadeq's attitude, how fruitful such a discussion would be.

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NOTICE OF DETACHMENT: When this form is detached from Top Secret material it shall be completed in the appropriate spaces below and transmitted to Central Top Secret Control for record.

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TO BY (Signature)	TO BY (Signature)	TO BY (Signature)
BY (Signature)	WITNESSED BY (Signature)	BY (Signature)
OFFICE	OFFICE	OFFICE
DATE	DATE	DATE